



## FOMO? Are we missing out on gift annuities?

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## Agenda

- Gift annuities
  - ✓ Doesn't every charity need them?
  - ✓ What could go wrong?
  - ✓ Reality check
- What does it take to issue CGAs?
- Aren't CGAs simple?
- Should we or shouldn't we?



## What is a gift annuity?

- Contract between donor and annuitant
- Unlimited obligation to pay
- Charity invests money and pays annuity
- Invested annuity used to pay annuitant
  - ✓ Investment performance
  - ✓ Mortality of annuitant
- Charity can use whatever is left



## Features of the Gift Annuity

- Low barrier to entry (\$10,000 min. common)
- Easy to establish and understand
- Annuities backed by all of charity's assets
- Subject to heavy regulation in some states
- Can only benefit one charity
- Can only have one or two annuitants



## Where do these rates come from?

- American Council on Gift Annuities (ACGA)
  - ✓ [Acga-web.org](http://Acga-web.org)
- Non-profit that recommends responsible annuity rates
- Assume longer lives and conservative investments
- Projected 50% left for charity
- Your mileage will vary



## Gift Annuity Donor Profile

- Philanthropic! Want to make a gift
- Concerned about outliving assets
- Financially
  - ✓ Not comfortable with risk; or
  - ✓ Wants to add more fixed income to investments
- Average 79 years old or older
- Frequently establish multiple annuities



## What could go wrong?

- Investment performance
  - ✓ Gift made before market drop
  - ✓ Gift made before market increase
- Mortality risk
  - ✓ Self-selection
  - ✓ Annuitants likely to live longer
- Charity must make payments even if donors money gone



## Reality Strikes

- Susan age 65 at gift
- Age 90 now
- Gift date 9/25/2000
- Gift amount **\$50,276**
- 7% annuity rate, \$3,519 annuity
- Market value 12/23 **-\$1,071**
- Life expectancy? 7 years





## Reality Strikes

- Constance age 80 at gift
- Age 96 now
- Gift date 1/28/2008
- Gift amount **\$20,000**
- 8% annuity rate, \$1,600 annuity
- Market value 12/23 **\$2,009**
- Life expectancy? 4.2 years



## Reality Strikes

- Phyllis age 90 at gift
- Age 98 now
- Gift date 6/14/16
- Gift amount **\$1,000,000**
- 9% annuity rate, \$90,000 annuity
- Market value 12/23 **\$757,484**
- Life expectancy? 3.6 years



## Doesn't everyone need an annuity program?

- Overlap between annuity and bequest donors modest
- CGAs another revenue stream
- Considered a full featured planned giving program
- Trustees and leadership ask about them
- Attracts transactional donors



## CGAs, Annuity Trusts, and Unitrusts

- Hundreds of thousands of gift annuities
  - ✓ Most CGAs are initiated by gift planning officers through their charity's marketing efforts
- In 2012, there were 14,616 annuity trusts in existence
- In 2012, there were 91,250 unitrusts in existence
  - ✓ Remainder trusts mostly initiated by donors' estate and financial planning professionals



## Deciding Whether to Start a Gift Annuity Program

- Financial Strength
  - ✓ Sufficient financial resources to invest gift annuity reserves
  - ✓ Comfortable with risk and liability of gift annuities
- Infrastructure
  - ✓ Financial partner experienced in managing CGAs
  - ✓ Staff training
  - ✓ Software
  - ✓ Legal counsel



## Deciding Whether to Start a Gift Annuity Program

- Donor base
  - ✓ Long history of committed donors
  - ✓ Large number of donors 65 and up
- Staff and resources
  - ✓ Fundraisers to promote, create proposals, complete CGAs
  - ✓ Marketing budget to educate and attract interest



## Features of the Gift Annuity

- Donor makes a current contribution to charity
- Charity issues contract promising to pay fixed amount annually for life
  - ✓ Typically, ACGA annuity rate
- Amount of payment is determined at time of gift and cannot change
- Taxation of payments:
  - ✓ Ordinary income
  - ✓ Tax-free income
  - ✓ Capital gain income



## Risks of Operating a Gift Annuity Program

- Mortality risk
  - ✓ Annuitant could outlive life expectancy
- Investment risk
  - ✓ Investment performance could be poor exhausting gift principal
- CGA is an unlimited obligation of issuing charity
  - ✓ Charity must make payments even if donor's gift is gone
- Single most effective risk control strategy is to close more gift annuities!





## Regulation of Gift Annuities

- Federal
  - ✓ Disclosure statement (Philanthropy Protection Act)
  - ✓ Forms 1099-R and 1096
- State
  - ✓ Charity subject to laws of states where it markets and issues gift annuities
  - ✓ If donor moves, does not subject charity to new state's laws



## Regulation: Initial State Registration

- State regulation:
  - ✓ 49 states consider CGAs insurance
  - ✓ Alabama considers CGAs securities
- 25 states require application or notification before issuing annuities
- 23 states exempt issuing CGAs from insurance laws
- 3 states are silent
  - ✓ Ohio is silent!



## Regulation: Annual Filing

- 14 states require reserve funds
  - ✓ Ohio is not one of them
  - ✓ Investment restrictions on how annuities invested
  - ✓ Most charities comply with most restrictive state
- Some require filing CGA agreements
- Some require following ACGA rates
- Detailed annual reports
  - ✓ Audited financials



## Administration of Annuities

- Gather demographic data
- Post gift documentation
- Administer payments
- Tax reporting (Form 1099-R)
- Manage investments
  - ✓ Track market values
- Managing annuitant deaths and reporting



## Who would create a CGA program??

- Charity is a household name
- Well-funded
  - ✓ Revenue exceeds current needs
- Large donor base
- Significant development and administration resources
- High-risk tolerance



## What's a fundraiser to do?

- If you don't already issue CGAs, you probably don't need them now
- If your program is floundering, reconsider
- What if a donor wants a gift annuity?
- Charitable Solutions/Dechomai Foundation
  - ✓ <https://dechomai.org/charitable-gift-annuities/>
  - ✓ Not an endorsement or recommendation



## Summary

- Consider resources and readiness to host CGA program
- Consider the complexities of issuing CGAs
- Consider institutional buy-in for CGAs
- Is a CGA right for donor **and** charity
- Take advantage of resources to manage CGA inquiries